

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**HOTLINE ALLEGATIONS ON
ARMY NATIONAL GUARD APPROPRIATIONS**

Report No. 98-030

December 3, 1997

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Department of Defense

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Acronyms

ARNG
CMA
DFAS
USD(C)

Army National Guard
Centrally Managed Allotment
Defense Finance and Accounting Service
Under Secretary of Defense (Comptroller)



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December 3, 1997

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
CHIEF, NATIONAL GUARD BUREAU
AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on Hotline Allegations on Army National Guard
Appropriations (Report No. 98-030)**

We are providing this report for review and comments. This is the second of two reports related to Defense Hotline allegations on Army National Guard appropriations. Comments from the Acting Under Secretary of Defense (Comptroller) were considered in preparing the final report.

Comments from the Comptroller, Army National Guard, were received too late to be considered in preparing the final report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, if the Comptroller, Army National Guard, does not submit additional comments by February 2, 1998, we will consider the comments already received as the response to the final report. We request that the Director, Defense Finance and Accounting Service, submit additional comments on Recommendation 1.b. by February 2, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (703) 604-9175 (DSN 664-9175 or e-mail RBird@DODIG.OSD.MIL) or Mr. Carmelo G. Ventimiglia, Audit Project Manager, at (317) 542-3852 (DSN 699-3852 or e-mail CVentimigli@DODIG.OSD.MIL). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Report No. 98-030
(Project No. 6FI-8017)

December 3, 1997

Hotline Allegations on Army National Guard Appropriations

Executive Summary

Introduction. The audit was performed in response to five allegations to the Defense Hotline. The complainant alleged that the Army National Guard failed to report that more funds were obligated than were authorized for use within the FY 1995 National Guard Personnel, Army appropriation. The complainant also alleged that disbursements were written off without being properly matched to corresponding obligations. Guidance issued by the Under Secretary of Defense (Comptroller) requires that obligations be established to cover disbursements that remain unmatched for more than 180 days. This audit report discusses those two allegations. Inspector General, DoD, Report No. 97-116, "Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard," March 31, 1997, discusses the other three allegations made by the complainant.

Audit Objectives. The overall audit objectives were to determine whether accounting reports for the open allotment within the FY 1995 National Guard Personnel, Army appropriation were supported and prepared accurately, and whether obligations were properly set aside for aged problem disbursements. We also evaluated applicable management controls.

Audit Results. We did not substantiate the allegation that the Army National Guard failed to report that more funds were obligated than were authorized for use in the open allotment within the FY 1995 National Guard Personnel, Army appropriation. Although the open allotment appeared to be overobligated by about \$37.8 million between September 30, 1995, and October 11, 1995, the Army National Guard Comptroller had in his control \$45.4 million in a reserve account. The combination of funds available in the open allotment and the undistributed account constituted the formal subdivision available to the Army National Guard Comptroller. Accounting reports at the end of FY 1995 correctly reflected this situation.

The second allegation was partially substantiated. Personnel of the Comptroller, Army National Guard, did not obligate sufficient funds in the correct appropriation to cover disbursements that were not promptly matched to corresponding obligations. A violation of Title 31, United States Code, Section 1301(a), "Applications," occurred because \$5.4 million in the FY 1995 Operation and Maintenance, Army National Guard appropriation was used for other than intended purposes. However, the

continued need to establish obligations to cover these and other overaged unmatched disbursements has been called into question by subsequent guidance issued by the Defense Finance and Accounting Service. For details of the audit results, see Part I.

Our review of management controls showed that the Army National Guard did not ensure funds were obligated to cover overaged unmatched disbursements in accordance with the Under Secretary of Defense (Comptroller) guidance. Implementation of recommendations contained in this report will strengthen management controls within the Army National Guard. See Appendix A for details on the management control program.

Summary of Recommendations. We recommend that the Defense Finance and Accounting Service, in coordination with Under Secretary of Defense (Comptroller), issue guidance requiring uncleared transactions by others that have been validated by fund holders to be classified and reported as unmatched disbursements. We recommend that the Comptroller, Army National Guard, deobligate \$1.8 million that was obligated in January and February 1996 in different accounts than the disbursements they were intended to cover. We recommend that the Comptroller, Army National Guard, establish obligations for overaged unmatched disbursements in the same appropriation accounts to which the disbursements were charged, and establish management controls to ensure that this practice is followed in the future. We also recommend that the Comptroller, Army National Guard, expedite actions to research and correct all disbursements that were overaged as of February 1996 that have not been matched to corresponding obligations.

Management Comments. The Acting Under Secretary of Defense (Comptroller) concurred with the recommendation to classify and report as unmatched disbursements all uncleared transactions by others that have been validated by an accountable station. She concurred with the intent of the recommendation to clarify how to handle the obligations established in January and February 1996. However, she stated that the reporting of uncleared transactions on partially cleared cycles as unmatched disbursements eliminated the need for the recommendation. Comments from the Comptroller, Army National Guard, were received too late to be incorporated into the final report.

Audit Response. Comments from the Acting Under Secretary of Defense (Comptroller) were partially responsive. The comments did not require the Defense Finance and Accounting Service to inform the Army National Guard that administrative obligations must be established in the appropriate accounts to cover all overaged unmatched disbursements, especially those uncleared since January 31, 1996. We request that the Director, Defense Finance and Accounting Service, submit additional comments on that recommendation by February 2, 1998.

Comments on the draft report from the Comptroller, Army National Guard, were received too late to be considered in preparing the final report. The comments were a mixture of concurrences and nonconcurrences with the recommendations. If the Comptroller wishes to submit additional comments, we should receive them by February 2, 1998, or we will consider the comments already received as the response to the final report.

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Part I - Audit Results

Introduction

Introduction. A complaint to the Defense Hotline alleged that the Army National Guard (ARNG) failed to properly account for and report the status of ARNG appropriations. This audit report discusses two of the five allegations. The complainant alleged that the ARNG failed to report that more funds were obligated than were authorized for use in the open allotment within the FY 1995 National Guard Personnel, Army appropriation account. The complainant also alleged that disbursements were written off without being properly matched to corresponding obligations. This audit report discusses these two allegations. The specific allegations are addressed in Appendix E.

The complainant also alleged that the ARNG submitted to the Defense Finance and Accounting Service (DFAS) Indianapolis Center an FY 1995 consolidated budget execution report that did not accurately reflect the FY 1991 National Guard Equipment, Defense appropriation. The complainant further alleged that the ARNG deobligated funds in September 1995, before the end of the fiscal year, and reobligated the funds in November 1995, the next fiscal year. These allegations were addressed in Inspector General, DoD, Report No. 97-116, "Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard," March 31, 1997.

Audit Background

The Comptroller, Army National Guard. The ARNG is a DoD Reserve component. Within the ARNG Bureau, the Director, Army Comptroller Directorate (the ARNG Comptroller), develops the resource requirements and financial management policies of the ARNG and administers all ARNG appropriations to provide the best possible support to the 50 states and 4 territories. The National Guard Personnel, Army appropriation is an annual appropriation used to pay ARNG personnel for active duty, active duty training, and inactive duty training. The National Guard and Reserve Equipment appropriation is a DoD procurement appropriation that is available for new obligations in the first 3 fiscal years and for expenditure and obligation adjustments in the subsequent 5 fiscal years. A portion of that appropriation has been allocated to the Department of the Army.

Centrally Managed Allotments. An allotment is a formal distribution of an allocation that authorizes obligations to be incurred up to a specific amount. A centrally managed allotment (CMA) is the authority issued by the holder of an

allocation for incurring obligations for a specific purpose and in a specific amount. The CMA is administered through an open allotment that permits authorized officials to charge the open allotment for authorized purposes without determination or certification that funds are available for each transaction. The ARNG Comptroller manages the National Guard Personnel, Army appropriation through both a CMA and decentralized (specific) allotments, issued to fiscal stations for purposes such as annual training. The portion of the appropriation account that is not distributed to either the open allotment or the specific allotments is retained by the ARNG Comptroller in an undistributed account. When a CMA is used for Reserve pay, headquarters estimates obligations, but fiscal stations incur them.

Guidance on Funds Control. DoD Directive 7200.1, "Administrative Control of Appropriations," May 4, 1995, regulates funds control for all DoD Components. DoD officials are to review all proposed obligations of funds to ensure that sufficient funds are available to cover all the obligations, that the purpose of the obligation is consistent with the authorized purposes of the fund or account, and that the obligation does not violate any provisions and limitations on incurring obligations. Using funds for purposes other than those for which they were appropriated is a violation of Title 31, United States Code, Section 1301(a), "Application," (31 U.S.C. 1301[a]). A violation of the Antideficiency Act could occur if the required corrections cause an overobligation or overdisbursement in the proper account. DoD 7000.14-R, "Financial Management Regulation," volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1, 1995, establishes the policies and procedures for the administrative control of funds.

Correcting Unmatched Disbursements. Problem disbursements are disbursements that have not been matched with corresponding obligations in official accounting records. Proper matching of disbursements with related obligations ensures that DoD has reliable information on the amount of funds available for obligation and expenditure. Problem disbursements can significantly increase the risk that an agency will make fraudulent or erroneous payments without detection and that cumulative amounts of disbursements will exceed appropriated amounts and other legal spending limits. Because problem disbursements have been the source of much concern within DoD, the Under Secretary of Defense (Comptroller) (USD[C]) issued specific policies and procedures aimed at eliminating the creation of problem disbursements and ensuring that funds are available to cover the disbursements that have not been matched to corresponding obligations within 180 days of the date of the disbursements (otherwise known as overaged problem disbursements).

Audit Objectives

The overall audit objectives were to determine whether:

- o accounting reports for the open allotment within the FY 1995 National Guard Personnel, Army appropriation were supported and prepared accurately, and
- o obligations were properly set aside for aged problem disbursements.

We also evaluated the applicable management controls. See Appendix A for the discussion of the audit scope, methodology, and the review of the management control program. See Appendix B for a summary of prior audit coverage related to the audit objectives.

Overaged Unmatched Disbursements

The ARNG Comptroller did not obligate sufficient funds to cover disbursements that were not promptly matched to the corresponding obligations in accounting records. When administrative obligations were established, the correct types of funds were not always used to cover the overaged unmatched disbursements. A violation of 31 U.S.C. 1301(a) occurred when \$5.4 million in the FY 1995 Operation and Maintenance, ARNG appropriation was used for other than intended purposes. This occurred because ARNG Comptroller personnel failed to follow USD(C) guidance while trying to show improvement in reducing overaged unmatched disbursements. Following that guidance would have required the ARNG Comptroller to obligate funds in an appropriation account that was in poor financial condition, limiting the availability of other funds.

Guidance issued by DFAS in May 1996, after the USD(C) guidance was issued, has called into question the need to establish administrative obligations for some overaged unmatched disbursements. The DFAS guidance excluded most transactions paid and accounted for by different stations reporting to the DFAS Indianapolis Center from procedures designed to ensure that obligations have been established in accounting records for all disbursements.

Nature and Extent of Problem Disbursements

Initial Guidance for Establishing Obligations for Overaged Problem Disbursements. On March 31, 1994, the USD(C) issued guidelines for problem disbursements and immediately suspended disbursements from accounts that were overdisbursed. On June 30, 1995, the USD(C) issued accounting policies and procedures for researching and correcting problem disbursements, including in-transit disbursements and unmatched disbursements. That guidance requires fund holders to establish administrative obligations for all unmatched disbursements charged to current and expired accounts that were made after March 31, 1994, that are not matched to the proper obligations within 180 days following the date of the disbursement. DFAS is to record and report the obligations in official accounting reports. Potential violations of the Antideficiency Act must be reported. A preliminary review of an Antideficiency Act violation should be initiated if posting an adjustment to a current, expired, or canceled appropriation would result in either an overobligation or an overdisbursement at either the appropriation level or a formal subdivision of the appropriation.

Overaged Unmatched Disbursements

Changes to USD(C) Guidance. On October 8, 1996, the USD(C) issued revised guidance related to establishing administrative obligations for overaged problem disbursements charged to current and expired appropriation accounts. The revised guidance requires fund holders to obligate funds only up to the amount of any unobligated balances remaining in the applicable account. If the overaged problem disbursements requiring obligations equal or exceed the unobligated balance of an account, the appropriation manager must ensure that further obligations are not incurred until unobligated balances exceed any remaining overaged problem disbursements. DoD Components may continue to research overaged problem disbursements without investigating potential violations of the Antideficiency Act. In a December 6, 1996, memorandum, the USD(C) stopped the classification of in-transit disbursements as problem disbursements. On December 16, 1996, the USD(C) modified the policy for obligating overaged in-transit disbursements. Fund holders are no longer required to establish obligations for overaged in-transit disbursements in current accounts or in expired accounts that are not scheduled to be canceled in the current fiscal year.

Defining In-Transit Disbursements and Unmatched Disbursements. The June 30, 1995, guidance from the USD(C) gives the following definitions:

- o In-transit disbursement - A disbursement transaction that has been transmitted by a paying office (disbursing station) to an accounting office (accountable station), but has not yet been received by the accounting office (accountable station).
- o Unmatched disbursement - A disbursement transaction that has been received and accepted by an accounting office (accountable station), but has not been matched to the correct detail obligation. This includes transactions that have been returned to the paying office (disbursing station).

In May 1996, the Deputy Director for General Accounting, DFAS, issued guidance for classifying and reporting problem disbursements. The guidance was intended to make information on problem disbursements more consistent by standardizing the format for reporting problem disbursements. Additional details about the guidance are on page 12.

Identifying Overaged Unmatched Disbursements

Identifying Overaged Unmatched Disbursements. In the financial network served by the DFAS Indianapolis Center, a disbursement or collection transaction that cannot be readily matched to a corresponding obligation remains uncleared until the accountable station either accepts the transaction and matches

Overaged Unmatched Disbursements

it to a particular obligation or returns the transaction to the disbursing station. To track uncleared transactions, the accountable station uses the transmittal letters on which the transactions are sent. The DFAS Indianapolis Center summarizes and reports multiple individual transactions in each transmittal letter for the same appropriation and accountable station. Before May 1996, the DFAS Indianapolis Center classified and reported transactions paid at one station and accounted for at another station (transactions by others) that had not been accepted within 60 days as unmatched transactions. The use of transactions by others facilitates prompt payments to contractors and others who receive payments.

Quantifying Overaged Unmatched Disbursements. Documentation showed that the ARNG had \$24.5 million in unmatched disbursements over 180 days old as of January 31, 1996. That amount was the sum of the unmatched disbursements on the individual transmittal letters that had a net positive balance. Each of the transmittal letters had an accounting date that was after March 31, 1994. The DFAS Indianapolis Center used the accounting date to age unmatched disbursements. Those unmatched disbursements had been charged to current and expired accounts within the National Guard Personnel, Army appropriation (appropriation code 2060); the Operation and Maintenance, ARNG appropriation (appropriation code 2065); and the National Guard and Reserve Equipment appropriation (appropriation code 0350). These three appropriations had cumulative negative balances (collections, reimbursements, or adjustments) of unmatched transactions totaling negative \$12.7 million that were more than 180 days old. Those balances represented the sum of unmatched transactions on the transmittal letters that had a net negative balance. Established procedures did not require fund holders to establish administrative obligations or deobligate funds when the cumulative balance in an appropriation account was negative. Appendix C identifies the balances of unmatched transactions in each fiscal year within the three appropriations.

Covering Overaged Unmatched Disbursements

Quantifying Obligated Funds. Personnel of the Comptroller, ARNG, did not establish administrative obligations to cover all unmatched disbursements greater than 180 days old as of January 31, 1996. To comply with the June 30, 1995, guidance from the USD(C), an administrative obligation should be established for each unmatched disbursement. Because individual transactions were not tracked and reported, the sum of the dollar values of unmatched disbursements on the transmittal letters that had a net positive balance should have been used. ARNG Comptroller personnel should have obligated \$24.5 million to cover the unmatched disbursements that were charged to funds from various fiscal years in the three appropriations (appropriation codes 2060, 2065, and 0350).

Overaged Unmatched Disbursements

Personnel of the Comptroller, ARNG, believed that only the difference between the net positive balance of \$24.5 million and the net negative balance of \$12.7 million in the various appropriation accounts should have been obligated. In January and February 1996, ARNG Comptroller personnel obligated \$6.5 million in two of the three appropriations. The following table identifies the types of funds obligated to cover overaged unmatched disbursements.

Funds Obligated to Cover Overaged Unmatched Disbursements		
<u>Appropriation Code</u>	<u>Fiscal Year</u>	<u>Dollar Amount</u>
2060	1993	\$ 1,407
2060	1994	377,216
2060	1995	18,632
2065	1993	154,557
2065	1995	<u>5,988,658</u>
Total		\$6,540,470

We were told that ARNG Comptroller personnel did not obligate additional funds to cover overaged unmatched disbursements because they had not completed research on the remaining unmatched disbursements. In March 1995, the ARNG began reconciling data in the State Accounting, Budget Execution, and Reservations System with supporting documentation. The reconciliations identified posting errors made by the Military District of Washington, Finance and Accounting Office. Before April 1, 1994, the Military District of Washington had accounting responsibility for appropriation accounts for which the ARNG Comptroller had financial management responsibility. Informal ARNG procedures required unmatched disbursements to be researched before obligating additional funds, even if the disbursements remained unmatched for over 180 days.

Types of Funds Used to Cover Overaged Unmatched Disbursements.

ARNG Comptroller personnel did not always use the correct funds to cover overaged unmatched disbursements. When a disbursement was not matched to the corresponding obligation within 180 days, the fund holder was required to establish an administrative obligation for the unmatched disbursement in the account in which the unmatched disbursement resided. We focused our review on the \$5,988,658 in administrative obligations that had been established in January and February 1996 in the FY 1995 Operation and Maintenance, ARNG appropriation. About \$555,000 of this \$6 million had been obligated to cover unmatched disbursements charged to the FY 1995 Operation and Maintenance, ARNG appropriation. The remaining \$5.4 million of the \$6 million was

Overaged Unmatched Disbursements

obligated to cover overaged unmatched disbursements charged to appropriations other than FY 1995 Operation and Maintenance, ARNG. Appendix D summarizes, by appropriation, the positive and negative dollar values of the unmatched transactions that were used to compute the amount obligated against the FY 1995 Operation and Maintenance, ARNG appropriation.

Appropriateness of Actions Taken. Obligating funds in the FY 1995 Operation and Maintenance, ARNG appropriation for charges to any other appropriation violated 31 U.S.C. 1301(a). If the disbursement should have been charged to another appropriation account, the original charge should have been reversed and the correct account charged. We reviewed supporting documentation available at the Office of the Comptroller, ARNG, for unmatched disbursements and collections valued at a net amount of \$2.7 million. The transmittal letters showed that the charges and credits were for appropriations other than FY 1995 Operation and Maintenance, ARNG. These transactions were part of the \$5.4 million in overaged unmatched disbursements that were inappropriately covered by funds in the FY 1995 Operation and Maintenance, ARNG appropriation. Documentation on two transmittal letters showed the following:

- o Transmittal letter 6469LK from the DFAS Columbus Center identified \$450,870.28 in disbursements charged to the FY 1992 National Guard and Reserve Equipment appropriation. In February 1996, ARNG Comptroller personnel obligated that amount against the FY 1995 Operation and Maintenance, ARNG appropriation to cover the overaged unmatched disbursements.

- o Transmittal letter 5077H1 showed that the Military District of Washington had charged about \$2.1 million to the FY 1991 National Guard and Reserve Equipment appropriation; \$2,907 in disbursements to the FY 1994 National Guard Personnel, Army appropriation; and \$48,635 to the FY 1994 Operation and Maintenance, ARNG appropriation. Collections and other credits in different accounts within the same appropriation accounts totaled \$0.2 million. In February 1996, ARNG Comptroller personnel obligated the net amount of \$1.9 million against the FY 1995 Operation and Maintenance, ARNG appropriation to cover the overaged unmatched disbursements.

The documentation supporting the net \$2.4 million on the two transmittal letters and the remaining \$0.5 million on the other six transmittal letters showed that the disbursements were charged to the correct appropriations. The ARNG improperly recorded administrative obligations against the FY 1995 Operation and Maintenance, ARNG appropriation.

Overaged Unmatched Disbursements

Potential Overobligation of National Guard and Reserve Equipment Appropriation. About \$4.2 million of the \$5.4 million inappropriately obligated against the FY 1995 Operation and Maintenance, ARNG appropriation covered overaged unmatched disbursements charged against the National Guard and Reserve Equipment appropriation for FYs 1991, 1992, and 1994. The Report on Budget Execution (Accounting Report [M] 1176) for the period ending February 29, 1996, showed that the unobligated balances for each of the three National Guard and Reserve Equipment appropriations were sufficient to cover the administrative obligations that should have been established. Consequently, although a violation of 31 U.S.C. 1301(a) occurred, the misapplication of funds did not cause a potential Antideficiency Act violation because proper funds were available when the misapplication occurred.

The budget execution data for the National Guard and Reserve Equipment appropriation accounts may not have been accurate. The other aspects of the allegation concerned the financial reporting of the FY 1991 National Guard and Reserve Equipment appropriation. Inspector General, DoD, Report No. 97-116, "Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard," March 31, 1997, states that in May 1996, the ARNG began reviewing disbursements charged against the FY 1991 National Guard and Reserve Equipment appropriation and determined that the Military District of Washington had inappropriately charged \$76.1 million to the FY 1991 appropriation account because of accounting and payment errors. When the ARNG completed its review and made accounting adjustments in July 1996, the FY 1991 appropriation account still included recorded overobligations of \$15 million. In June 1996, the ARNG obligated \$13.6 million in funds of the FY 1996 National Guard and Reserve Equipment appropriation to cover an apparent overobligation of the FY 1991 appropriation account. In October 1996, the ARNG found an accounting error indicating that an additional \$15.6 million was available for obligation in the FY 1991 appropriation account. The ARNG then deobligated the \$13.6 million in the FY 1996 appropriation account. The auditors concluded that the ARNG should have reported a potential Antideficiency Act violation of the FY 1991 appropriation account in June 1996, when the ARNG made an accounting adjustment that obligated \$13.6 million of the FY 1996 appropriation of apparent FY 1991 overobligations.

On September 6, 1996, the ARNG awarded a contract for assistance in analyzing existing accounting databases, contract databases, and supporting documentation to identify mismatches in database records between the ARNG systems and the DFAS Indianapolis Center's systems. Mismatches existed in records of the National Guard and Reserve Equipment appropriation for FYs 1991 through 1996. The National Guard and Reserve Equipment appropriation accounts should be monitored continuously to avoid similar problems in the future.

Overaged Unmatched Disbursements

Status of Subsequent Actions Taken. Generally, the ARNG took appropriate actions to deobligate the administrative obligations initially established against the FY 1995 Operation and Maintenance, ARNG appropriation and to match the corresponding disbursements to related obligations. However, more needs to be done. As of January 1997, ARNG Comptroller personnel had deobligated about \$3.6 million of the \$5.4 million in funds obligated to cover overaged unmatched disbursements that were charged to appropriations other than FY 1995 Operation and Maintenance, ARNG.

- o Disbursements related to about \$1.7 million of the \$3.6 million in administrative obligations were matched against obligations of the originally charged appropriations. About \$1.2 million was cleared against the National Guard and Reserve Equipment appropriation, and \$459,000 was cleared against the FY 1994 Operation and Maintenance, ARNG appropriation. Our review of available documents showed that the disbursements were properly matched to corresponding obligations.

- o ARNG Comptroller personnel deobligated about \$1.9 million of the \$3.6 million in administrative obligations from the FY 1995 Operation and Maintenance, ARNG appropriation and subsequently established administrative obligations using the FY 1991 National Guard and Reserve Equipment appropriation. That amount represented the net amount of the charges and credits on transmittal letter 5077H1.

- o The remaining \$61,486 of the \$3.6 million was deobligated from the FY 1995 Operation and Maintenance, ARNG appropriation, but the related disbursements had not been matched to corresponding obligations, and administrative obligations had not been established to cover the overaged unmatched disbursements.

As of February 10, 1997, about \$1.8 million of the \$5.4 million was still inappropriately obligated against the FY 1995 Operation and Maintenance, ARNG appropriation to cover overaged unmatched disbursements. ARNG Comptroller personnel had not matched the disbursements to obligations of the charged accounts or corrected the accounting for the expenditures. The \$1.8 million in obligations in the FY 1995 Operation and Maintenance, ARNG appropriation should be deobligated. A portion of the \$0.6 million originally obligated in other than the FY 1995 Operation and Maintenance, ARNG appropriation may also need to be deobligated. The ARNG Comptroller should make that determination, deobligate any inappropriately obligated funds, and establish administrative obligations in the appropriation accounts from which the disbursements were made. The ARNG Comptroller should also develop controls to ensure that sufficient funds in the correct appropriation accounts are obligated to cover unmatched disbursements that become overaged.

Change in Policy for Reporting Transactions by Others

Guidance Relating to Transactions by Others. The DFAS policy for reporting uncleared transactions by others inaccurately reflected the status of those transactions. Consequently, those transactions were inappropriately excluded from the guidance that requires funds to be set aside if the corresponding obligations do not exist in accounting records. Within 15 days of payment, accountable stations routinely received disbursement transactions identified on transmittal letters. Within 60 days, the accountable stations either accepted and posted the disbursement transactions to accounting records or returned them to the disbursing station. Before accepting or rejecting transactions on transmittal letters, personnel at accountable stations validate the transactions. They do this by determining whether the disbursements relate to obligation documents that they are responsible for, and by verifying the accuracy of the accounting classification data related to the disbursement.

The DFAS guidance issued in May 1996 identifies as unmatched disbursements those transactions that personnel at the accountable stations have attempted to validate or research. However, the May 1996 guidance did not provide a category for reporting them as unmatched. Only uncleared transactions that had been rejected by an accountable station were to be reported as unmatched disbursements. All other uncleared transactions by others were to be reported as in-transit disbursements. The change in reporting policy caused accountable stations of the DFAS Indianapolis Center to report fewer unmatched disbursements than previously. Because the uncleared transactions by others were reported as in-transit disbursements instead of unmatched disbursements, fund holders no longer established administrative obligations for overaged disbursement transactions.

Continued Need to Comply With USD(C) Guidance. The guidance issued by DFAS in May 1996 was not consistent with USD(C) guidance. The USD(C) guidance considers in-transit disbursements to be primarily those transactions that have not been received by an accountable station. Transactions that have been received by an accountable station should not be considered in-transit for the entire period that an accountable station holds the transactions without either accepting them or returning them to the disbursing station. After accountable station personnel validate the transactions, the transactions are no longer in-transit to the accountable station and should be classified and reported as unmatched disbursements.

Personnel at the DFAS Indianapolis Center could not systematically identify when individual transactions were validated or when research had begun. However, a reasonable approach for estimating the uncleared transactions for others that should be reported as unmatched disbursements would be to report

Overaged Unmatched Disbursements

the difference between the dollar values of transactions charged to and cleared by an accountable station on transmittal letters that have been partially processed. On transmittal letters for which an accountable station has not accepted or rejected any transactions, the entire dollar value of the transactions on the transmittal letters would be classified and reported as in-transit disbursements because there would be no indication that the validation process had begun. The DFAS planned to review the classification and reporting of uncleared transactions by others. On May 23, 1997, the Director, DFAS, established a new in-transit reporting requirement aimed at pinpointing where the documents or electronic data were not being processed in a timely manner. The guidance did not identify which uncleared transactions by others should be reported as unmatched disbursements.

ARNG Comptroller personnel stated that the change in policy on December 16, 1996, may nullify the requirement to establish administrative obligations for overaged uncleared transactions by others. The change in policy also calls into question the need to retain the administrative obligations previously established in accounting records to cover uncleared transactions by others that were formerly classified as overaged unmatched disbursements.

We do not believe that the change in guidance should nullify the requirement to obligate funds to cover the unmatched disbursements that were overaged as of January 31, 1996. In addition, we disagree with the requirement to stop classifying and reporting as unmatched disbursements those disbursements that accountable stations have received but do not promptly accept or reject. The Director, DFAS, in coordination with the USD(C), should issue clarifying guidance for classifying and reporting uncleared transactions by others.

Conclusion

The ARNG Comptroller should deobligate the remaining \$1.8 million in administrative obligations that were established in appropriations other than those to which the disbursements were charged. Unless the disbursement has been matched to a corresponding obligation or research has shown that the charged appropriation account is incorrect and the disbursement has been corrected, funds in the same appropriation account to which the disbursement was charged should be obligated to cover the overaged unmatched disbursements.

When administrative obligations were established in accounts other than the appropriation accounts to which the disbursements were charged, a violation of 31 U.S.C. 1301(a) occurred. Because budget execution reports showed that unobligated balances in the accounts where the administrative obligations should

Overaged Unmatched Disbursements

have been established were sufficient to enable a correction, a potential Antideficiency Act violation did not occur. Management controls should be established to ensure that sufficient funds are obligated, in the appropriation accounts to which the disbursements were charged, to cover all overaged unmatched disbursements. When properly recorded, the additional obligations may cause restrictions in establishing new obligations and upward obligation adjustments in current and expired accounts. Failure to accurately record obligations prevents accurate financial reporting and positive assurance that funds are used for the purposes intended by Congress.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Finance and Accounting Service, in coordination with Under Secretary of Defense (Comptroller), issue clarifying guidance that:

a. Requires uncleared transactions by others that have been validated by an accountable station to be classified and reported as unmatched disbursements.

Management Comments. The Acting USD(C) concurred with the recommendation and stated that in May 1997, DFAS implemented a new reporting requirement for in-transit disbursements. Only those transactions that have not been validated by an accountable station are to be reported as in-transit disbursements. The DFAS Indianapolis Center now reports transactions on partially cleared cycles as unmatched disbursements.

Audit Response. The comments from the Acting USD (C) are responsive. We held discussions with personnel at Headquarters, DFAS, and the DFAS Indianapolis Center to clarify the DFAS guidance. As a result of those discussions, DFAS Indianapolis Center changed procedures and began classifying transactions on partially cleared cycles as unmatched disbursements.

b. Instructs the Comptroller, Army National Guard, and the Defense Finance and Accounting Service Indianapolis Center, in handling previously established obligations to cover overaged unmatched disbursements that have subsequently been reclassified and reported as in-transit disbursements.

Management Comments. The Acting USD(C) concurred with the intent of the recommendation. However, she stated that the reporting of uncleared transactions as unmatched disbursements eliminated the need for the recommendation.

Overaged Unmatched Disbursements

Audit Response. The comments of the Acting Under Secretary of Defense (Comptroller) were partially responsive. We agree that the change in classifying uncleared transactions by others will ensure that the DFAS Indianapolis Center accurately reports transactions on partially cleared cycles as unmatched disbursements. However, this change does not ensure that the Comptroller, Army National Guard, will correctly handle the obligations that were established in January and February 1996. Administrative obligations that were established in other than the correct accounts should be deobligated and reestablished in the accounts to which the disbursements were charged. Administrative obligations that were established in the correct accounts should remain in accounting records until the associated unmatched disbursements are researched and corrected. We also are not aware of any clarifying guidance that has been issued regarding this matter. We request that DFAS ensure that the Comptroller, Army National Guard, has received clear guidance in this area.

2. We recommend that the Comptroller, Army National Guard:

a. Deobligate all administrative obligations that were established to cover accounts other than those to which the overaged unmatched disbursements were charged.

b. Establish administrative obligations for all overaged unmatched disbursements in the appropriation and fiscal year to which the disbursements were charged.

c. Put management controls in place to ensure that administrative obligations are established in the proper accounts for all overaged unmatched disbursements. Intensively manage those appropriation accounts in which administrative obligations should be established in amounts that exceed unobligated balances.

d. Expedite actions to research and correct all remaining unmatched disbursements that were overaged as of February 1996.

Management Comments. Comments on the draft report from the Comptroller, Army National Guard, were received too late to be considered in preparing the final report. The comments were a mixture of concurrences and nonconcurrences with the recommendations. Therefore, if the Comptroller, Army National Guard, does not submit additional comments, we will consider the comments already received on the draft report as the response to the final report.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed events that took place near the end of FY 1995 as related to the open allotment within the FY 1995 National Guard Personnel, Army appropriation. We also reviewed the actions taken to research and correct unmatched disbursements that existed as of January 31, 1996, for which the Headquarters, National Guard Bureau Accounting Office (the Army Comptroller Directorate) had accounting responsibility. As of January 31, 1996, reports showed that the ARNG had \$24.5 million in overaged unmatched disbursements on individual transmittal letters that had a net positive balance and negative \$12.7 million in overaged unmatched disbursements on individual transmittal letters that had a net negative balance.

Those unmatched disbursements had been charged to current and expired accounts within the National Guard Personnel, Army appropriation; the Operation and Maintenance, ARNG appropriation; and the National Guard and Reserve Equipment appropriation. We also reviewed monthly reports from the DFAS Indianapolis Center that identified the age and dollar value of uncleared transactions for others for selected months between January 1996 and April 1997. Further, we reviewed the actions taken to establish administrative obligations for overaged unmatched disbursements valued at \$5.4 million. We reviewed documentation for unmatched disbursements with a net \$2.7 million value.

Computer-Processed Data. We relied on computer-processed from accounting reports. Data testing was limited to tracing some data in the accounting reports to source documentation. Although we did not perform a reliability assessment of the computer-processed data, we determined that the information on the source documents agreed with the computer-processed data. We did not find errors that would preclude use of the computer-processed data in meeting the audit objectives or change the conclusions in the report.

Audit Period and Standards. We performed this financial-related audit from June 1996 through July 1997 in accordance with auditing standards issued by

Appendix A. Audit Process

the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included such tests of management controls as were considered necessary.

Methodology

To determine whether accounting reports prepared for the CMA of the FY 1995 National Guard Personnel, Army appropriation were supported and prepared accurately, we reviewed funding authorization documents and the methodology used to establish obligations against the open allotment account. We interviewed ARNG Comptroller personnel to determine how they managed the CMA, including the open allotment, and the undistributed account. We also received assistance from personnel in the Office of the Deputy General Counsel, DoD (Inspector General), in reviewing the allegation that a potential Antideficiency Act violation may have occurred.

To determine whether obligations were properly set aside for aged problem disbursements, we compared DoD accounting policy and procedures for researching and correcting unmatched disbursements with the actions taken by ARNG Comptroller personnel. We also reviewed documentation and interviewed ARNG Comptroller personnel to evaluate the support for their actions to establish administrative obligations and match disbursements to corresponding obligations.

Contacts During the Audit. We visited or contacted individuals and organizations within the DoD. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of Management Control Program. We reviewed management controls over reporting the status of the CMA and accounting for

*DoD Directive 5010.38 has been revised as "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the directive.

disbursements that were not promptly matched to obligations. We also reviewed the results of any self-evaluation of those management controls.

Adequacy of Management Controls. We identified a material management control weakness, as defined by DoD Directive 5010.38, in accounting for disbursements that were not promptly matched to obligations. The ARNG had not established appropriate management controls to ensure that funds were obligated to cover overaged unmatched disbursements in accordance with USD(C) guidance. Consequently, obligations were not promptly established in the correct appropriation. The lack of appropriate management controls could prevent visibility over potential Antideficiency Act violations. Recommendation 2.c. in the report, if implemented, will correct the material weakness. A copy of the report will be provided to the senior official responsible for management controls in the ARNG.

Adequacy of Management's Self-Evaluation. ARNG Comptroller personnel identified the open allotment within the National Guard Personnel, Army, appropriation as a part of the Program and Budget Division assessable unit and, in our opinion, correctly identified the risk as high. ARNG Comptroller personnel identified and reported material management control weaknesses in managing the open allotment and developed procedures to correct the weaknesses. In October 1996, they began implementing corrective actions on a test basis in six states.

ARNG Comptroller personnel identified unmatched disbursements as part of the Accounting Division assessable unit; however, they assigned a low level of risk to that area of the assessable unit. They considered the area to be a low priority and performed no further testing. They should have assigned a higher level of risk to the area and evaluated the applicable management controls. Because they did not perform the evaluation, they did not identify and report the material management control weakness identified by the audit.

Appendix B. Summary of Prior Coverage

The Inspector General, DoD, and the Army Audit Agency previously issued three reports about issues regarding management of the centrally managed allotment and accounting for the funds of the ARNG. The Department of the Army also reported on its investigation of a violation of 31 U.S.C. 1341 (a)(1)(A) in the FY 1993 National Guard Personnel, Army appropriation.

Inspector General, DoD

Report No. 97-116, "Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard," March 31, 1997. This report stated that the ARNG made material accounting adjustments to FY 1991 appropriation data before submitting FYs 1994 and 1995 budget execution reports to ensure that the reports did not show obligations in excess of FY 1991 appropriated funds. The ARNG subsequently made accounting adjustments reobligating the FY 1991 funds after submitting FYs 1994 and 1995 budget execution reports. In addition, the ARNG obligated \$13.6 million of FY 1996 funds to offset apparent FY 1991 overobligations, but did not report a potential Antideficiency Act violation. Timely and effective reviews would have prevented unneeded encumbrance of FY 1996 funds for a 5-month period.

The auditors recommended that the ARNG revise practices that permitted the transactions to occur, improve the process for making material accounting adjustments to budget transactions, effectively coordinate joint reviews of obligated balances, and establish management control procedures to ensure that the ARNG properly reports potential Antideficiency Act violations. The ARNG took actions to improve procedures and practices by reviewing accounting reports bimonthly and establishing adjustment procedures for finance and accounting officers. Improvements were also made to joint reconciliations by program managers. The ARNG stated that it had complied with the appropriate regulatory requirements and did not need to establish additional management control procedures.

Report No. 96-185, "Centrally Managed Allotment System in the Reserve Components," June 28, 1996. This report stated that the Reserve components did not have adequate controls in place to manage Reserve pay. Reserve components could not provide documentation to support their justifications for establishing CMAs or for continuing to use them. The report recommended that the USD(C) establish a working group for converting Reserve and National

Guard personnel appropriations to decentralized allotments. The report also recommended that the heads of the Reserve components establish procedures to ensure that all components comply with DoD 7000.14-R. The USD(C) concurred and implemented actions to establish the working group and procedures to ensure compliance with DoD 7000.14-R.

Army Audit Agency

Report No. SR 95-720, "Selected National Guard Pay Issues," May 2, 1995. This report identified actions taken by the National Guard Bureau to correct the problems that resulted in a February 1994 Antideficiency Act violation of the FY 1993 pay appropriation. Corrective actions by the National Guard Bureau strengthened management controls over the pay appropriation in some areas, but additional management emphasis was needed. The report recommended that the National Guard Bureau take several actions to improve its plan to convert from centrally managed to decentralized allotments for training pay for inactive-duty Reservists. These actions included designating a program manager at the National Guard Bureau level to coordinate with State National Guard units on monitoring expenditures for inactive-duty training. The National Guard Bureau concurred with the recommendation and stated that a program manager had been selected, the monthly report was under review, and program changes had been completed, permitting testing of decentralized allotments in six states to begin in October 1996.

Department of the Army

In its "Report of Antideficiency Act Violation" (Case No. 94-05), the Department of the Army reported a violation of 31 U.S.C. 1341 (a)(1)(A) in the FY 1993 National Guard Personnel, Army appropriation. The amount of the violation was \$29.6 million. The National Guard Bureau and DFAS suspended disbursement on additional obligations and asked Congress for the authority to reprogram funds. The Director, ARNG, ordered an investigation into the alleged violation. DFAS assisted in the investigation, which concluded that the violation was caused by inaccurate budget models; accounting errors; and poor business practices, including the failure to promptly clear disbursements.

Appendix C. Unmatched Transactions Over 180 Days Old as of January 31, 1996

<u>Appropriation Code</u> (Negative)	Fiscal	<u>Balances on Transmittal Letters</u>	
		<u>Year</u>	<u>Positive</u>
2060 ¹	1992	\$ 33,731	\$ (154)
2060	1993	813	(741)
2060	1994	551,668	(184,570)
2060	1995	219,465	(20,911)
2065 ²	1991	1,280	(29,709)
2065	1992	21,170	(87,433)
2065	1993	52,608	(1,202,148)
2065	1994	9,568,728	(641,505)
2065	1995	8,094,867	(718,650)
0350 ³	1990	722,563	(4,428,527)
0350	1991	2,695,017	(306,008)
0350	1992	2,108,840	(2,343,566)
0350	1993	401,302	(2,213,755)
0350	1994	16,638	(474,127)
Totals		\$24,488,689	\$(12,651,804)

¹ Appropriation code 2060 represents the National Guard Personnel, Army appropriation.

² Appropriation code 2065 represents the Operation and Maintenance, ARNG appropriation.

³ Appropriation code 0350 represents the National Guard and Reserve Equipment appropriation.

Appendix D. Unmatched Transactions Covered by Administrative Obligations

<u>Appropriation Code</u>	<u>Fiscal Year</u>	<u>Balances on Transmittal Letters</u>	
		<u>Positive</u>	<u>(Negative)</u>
2060 ¹	1992		\$ (154)
2060	1993		(520)
2060	1994		(139,398)
2060	1995		(15,685)
2065 ²	1991		(4,746)
2065	1992		(85,911)
2065	1993		(673,800)
2065	1994	\$ 6,958,258	
2065	1995	554,916	
0350 ³	1990		(3,716,854)
0350	1991	2,282,724	
0350	1992	1,844,818	
0350	1993		(1,058,309)
0350	1994	<u>43,319</u>	
Totals⁴		\$11,684,035	\$(5,695,377)

¹ Appropriation code 2060 represents the National Guard Personnel, Army appropriation.

² Appropriation code 2065 represents the Operation and Maintenance, ARNG appropriation.

³ Appropriation code 0350 represents the National Guard and Reserve Equipment appropriation.

⁴ The sum of the positive and negative amounts on the transmittal letters was \$5,988,658.

Appendix E. Allegations and Audit Results

The Defense Hotline received a complaint alleging that the ARNG Comptroller failed to properly account for and report the status of ARNG appropriations. The complaint consisted of five allegations about the propriety of accounting for the appropriations of the ARNG. Inspector General, DoD, Report No. 97-116, "Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard," March 31, 1997, addresses the audit results on three of the allegations. The other two allegations and the related audit results follow.

Allegation 1. About \$33.6 million more had been obligated than was authorized in the open allotment within the FY 1995 National Guard Personnel, Army, appropriation. The ARNG Comptroller failed to report that the open allotment had \$33.6 million more funds obligated than authorized in FY 1995. A potential Antideficiency Act violation should have been reported.

Audit Results. The allegation was not substantiated. Although the open allotment appeared to be overobligated by about \$37.8 million between September 30, 1995, and October 11, 1995, the ARNG Comptroller had in his control \$45.4 million in an undistributed account. The combination of funds available in the open allotment and the undistributed account constituted the formal subdivision available to the ARNG Comptroller.

On October 5, 1995, ARNG Comptroller personnel determined that estimated liabilities payable from the open allotment were too low. On the same date, they increased obligations in the open allotment to equal the revised estimate of total liabilities. The effective date of the increase was September 30, 1995. As of September 30, 1995, total obligation authority in the open allotment was \$37.8 million less than the amount needed to support the October 5, 1995, obligation increase. However, \$45.4 million was available for obligation in the undistributed account. The undistributed account was used as a balancing account with obligation authority available to the ARNG Comptroller pending distribution to a specific account or fiscal station. Both the open allotment and the undistributed account contained funds issued to the ARNG Comptroller and were under the control of the ARNG Comptroller prior to September 30, 1995, and on October 5, 1995. On October 11, 1995, about \$37.8 million in obligation authority was transferred from the undistributed account to the open allotment. The effective date of the transfer of funds from the undistributed account to the open allotment was October 11, 1995. The automated funds distribution system would not permit an earlier effective date.

Appendix E. Allegations and Audit Results

Allegation 2. ARNG Comptroller personnel wrote off disbursements without properly matching them to corresponding obligations in order to reduce the dollar value of uncleared disbursements. By permitting such actions to take place, management controls that prevent duplicate payments may have been circumvented.

Audit Results. The allegation was partially substantiated. ARNG Comptroller personnel did not write off disbursements. However, while trying to comply with USD(C) guidance, ARNG Comptroller personnel established administrative obligations in incorrect accounts for at least \$5.4 million of the \$6.5 million in overaged unmatched disbursements that had been covered by administrative obligations. The use of \$5.4 million for other than the intended purposes was a violation of 31 U.S.C. 1301(a). ARNG Comptroller personnel eventually matched some of the overaged unmatched disbursements to corresponding obligations. Not researching and clearing all unmatched disbursements increases the risks of fraudulent or erroneous payments being made without detection.

ARNG Comptroller personnel should have established administrative obligations to cover the \$24.5 million in disbursements that, as of January 31, 1996, had not been matched to corresponding obligations within 180 days. ARNG Comptroller personnel failed to follow USD(C) guidance while trying to show improvement in reducing overaged unmatched disbursements. Following that guidance would have required the ARNG Comptroller to obligate funds in an appropriation account that was in poor financial condition and limit the availability of other funds. The ARNG Comptroller should expedite actions to research and correct all remaining unmatched disbursements that were overaged as of February 1996. Nothing came to our attention to lead us to believe that the unmatched disbursements we reviewed were duplicate payments.

Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Director for Accounting Policy

Assistant Secretary of Defense (Public Affairs)

Assistant Secretary of Defense (Reserve Affairs)

Director, Defense Logistics Studies Information Exchange

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)

Auditor General, Department of the Navy

Superintendent, Naval Postgraduate School

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)

Auditor General, Department of the Air Force

Other Defense Organizations

Chief, National Guard Bureau
Director, Army National Guard Bureau
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Indianapolis Center
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations

Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal
Justice, Committee on Government Reform and Oversight
House Committee on National Security

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Part III - Management Comments

Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

OCT 27 1997



MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
ODODIG

SUBJECT: Audit Report on Hotline Allegations on Army National Guard Appropriations
(Project No. 6FI-8017)

In a recent memorandum, you asked for our comments on the subject draft report. You asked that our comments describe actions taken or planned in response to agreed-upon recommendations and designate the completion dates of the actions.

The Department concurs with one recommendation and partially concurs with the other recommendation in the subject report. Our specific comments on the two recommendations are summarized below:

RECOMMENDATION 1.a. We recommend that the Director, Defense Finance and Accounting Service (DFAS), in coordination with the Under Secretary of Defense (Comptroller), issue clarifying guidance that requires uncleared transactions by others that have been validated by an accountable station to be classified and reported as unmatched disbursements (UMDs).

OUSDC(C) Comments. Concur. The DFAS implemented a new in-transit reporting requirement, effective May 1997, that requires only those transactions that have not been validated by an accountable station to be reported as in-transit disbursements. As a result, the Indianapolis Center now includes the transactions on partially cleared cycles as UMDs.

RECOMMENDATION 1.b. We recommend that the Director, DFAS, in coordination with the Under Secretary of Defense (Comptroller), issue clarifying guidance that instructs the Comptroller of the Army National Guard and the DFAS Indianapolis Center in handling obligations previously established to cover overaged UMDs that subsequently have been reclassified and reported as in-transit disbursements.

OUSDC(C) Comments. Partially concur. Although the Department concurs with the intent of this recommendation, we believe the change in reporting uncleared transactions as UMDs, as described above in the response to recommendation 1.a., eliminates the need for this recommendation.

Ms. Susan M. Williams is my staff contact for this matter. She may be reached by e-mail: williams@ousdc.osd.mil or on (703) 697-3193.

Alice C. Maroni
Acting Under Secretary of Defense
(Comptroller)

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report.

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